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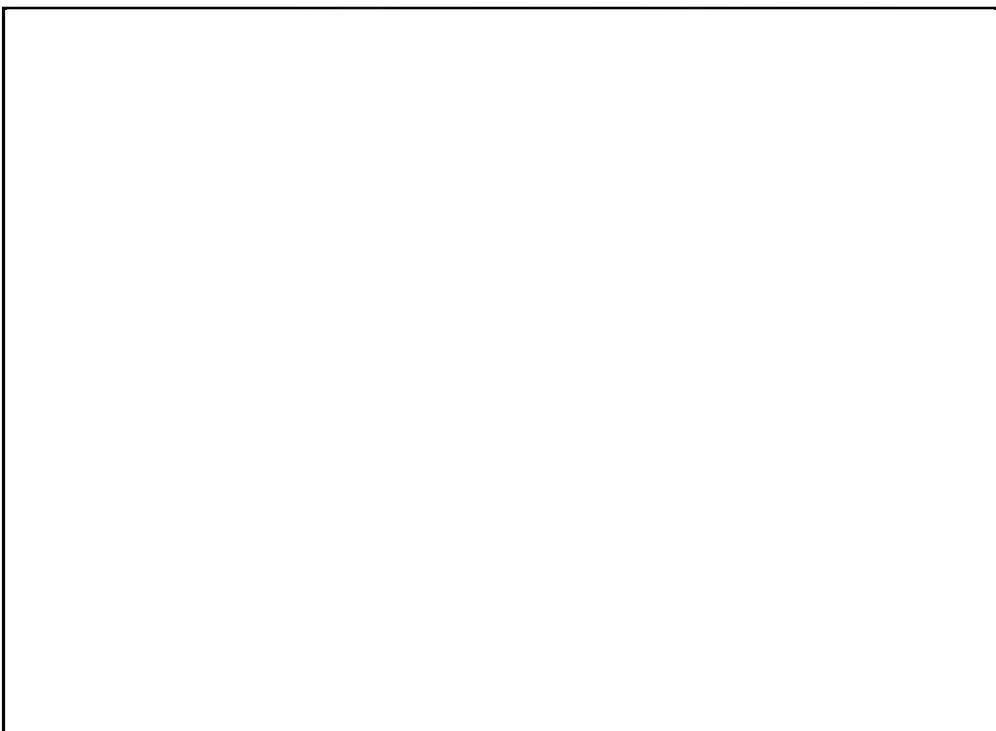
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**1. BRITISH LABOR LEADER OUTLINES POSSIBLE
SUEZ COMPROMISE**

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Labor Party leader Hugh Gaitskell told Senator George on 9 September that a compromise solution to the Suez crisis could be found with the good offices of India and the United States, according to the American embassy in London.

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Gaitskell thinks a compromise might be reached by recognizing that Egypt should "handle the daily operation" of the canal, leaving specific matters--such as unrestricted passage, tolls, and development--to the supervision of an international council. He cited Nasr's stated willingness to accept some international guarantee of free passage and fixing of tolls as grounds for his belief that such a plan might work. Labor's "shadow cabinet" is to meet before the parliamentary debate on 12 September to fix the party's line, Gaitskell added.

Following conversations with several Conservative members of Parliament, the American embassy in London reports that the government hopes the two-day special parliamentary session will not lead to a vote because it wants to demonstrate the greatest possible national unity.

Comment

There are indications that the Labor Party will press for a vote of confidence if the government refuses to pledge that it will take military action only as a last resort.

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2. PINEAU CALLS FOR IMMEDIATE ECONOMIC SANCTIONS AGAINST EGYPT AS ONLY ALTERNATIVE TO FORCE

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[redacted] French foreign minister Pineau told Ambassador Dillon on 10 September that the one alternative to the use of force against Egypt would be prompt [redacted] agreement by the important shipping countries on a positive program of economic sanctions. He added that French and British prestige was now "totally committed," both domestically and throughout the Middle East and Africa.

Pineau added that Paris could no longer request French personnel, including pilots, to stay in Suez Canal jobs against their will and that he felt the majority would leave this week.

Comment Paris can move only as far as London is willing to go in imposing drastic sanctions. The Mollet government is probably counting on an early Suez Canal transit breakdown as a means of stiffening the British position on immediate economic sanctions and gaining domestic and foreign support for any further French-British moves. The French in the past week seem to have stepped up attempts to impress on American officials the necessity for economic sanctions as a means of avoiding military intervention.

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4. HUNGARIAN REGIME NEGOTIATIONS WITH NAGY REPORTED NEAR CONCLUSION

[REDACTED]

The Hungarian regime's negotiations with ex-premier Imre Nagy concerning his return to the Hungarian Communist Party have reached the point where some

[REDACTED] decisions may be expected soon, according to [REDACTED]
the American legation in Budapest.

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Nagy demands the rehabilitation of a number of his colleagues, the placement of some of his supporters in key economic positions, and the right to control one or two newspapers. In addition, Nagy reportedly is calling for an alteration in the vast shipments to the USSR, which he believes are injurious to the Hungarian economy.

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Comment

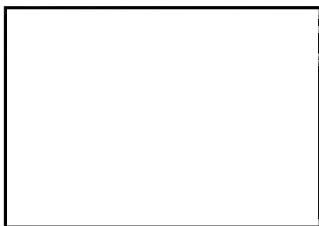
Conclusion of these discussions, which have reportedly been under way between Nagy and the Gero-led regime for the past month, may have been delayed by Gero's insistence that Nagy endorse the party's policy before seeking readmission. In the past Nagy has refused to recognize any past "errors" or to indulge in self-criticism.

The increasing strength of the moderates in the party may force Gero to accede to an early rehabilitation of Nagy. Acceptance of even some of Nagy's reported demands would represent a further and significant gain for the party moderates. Regime policy since Rakosi's ouster on 18 July has been assuming more and more the character desired by party moderates.

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5. USSR READY TO NEGOTIATE INFORMAL NORMALIZATION OF RELATIONS WITH JAPAN



A Moscow radio broadcast on 11 September confirmed previous hints that the USSR is ready to negotiate informal normalization of relations with Japan,

thereby breaking the impasse in restoration of Soviet-Japanese relations on the basis of a treaty which developed during the Moscow talks in August. The broadcast was made almost simultaneously with the announcement from Tokyo that Premier Hatoyama plans to fly to Moscow on 26 September.

In reviving the Soviet position that normalization could be achieved informally as well as through conclusion of a treaty, the USSR repeated exactly the five points for normalization that had been put forth by Japanese leaders on 6 September--termination of the state of war, repatriation of prisoners of war, exchange of ambassadors, effectuation of previously negotiated fishery treaties, and Soviet support for Japan's admission to the United Nations.

Since the "new" Japanese proposal is for the most part an acceptance of Soviet terms for informal normalization rejected by Japan in January, Moscow probably feels that Japan has capitulated to its minimum terms. The only point of dispute which may arise is over Japanese insistence that support for its admission to the United Nations be unconditional. The USSR has given no indication that it has backed down from its position that UN membership for Japan depends on admission at the same time of Outer Mongolia.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 11 September)

Egypt charged that an Israeli patrol crossed the Egyptian border west of the El Auja demilitarized zone on 11 September and killed five Egyptian soldiers. A sixth Egyptian was reported wounded. Egypt alleged that the clash occurred ten miles inside Egyptian territory. The raid was probably in retaliation for sabotage of the Tel Aviv-Beersheba rail line on the previous night, which an Israeli army spokesman attributed to Egyptian terrorists.

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Israeli spokesmen have charged that the six Israeli soldiers killed in a clash on the Jordan border on 10 September were fired on from Jordan and that their bodies were subsequently dragged across the border by the Jordanians.

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